'Plans for a European Monetary Fund', from Frankfurter Allgemeine Zeitung (5 July 1978)

Caption: On 5 July 1978, the German daily newspaper Frankfurter Allgemeine Zeitung focuses on the joint initiative of the German Chancellor, Helmut Schmidt, and the French President, Valéry Giscard d'Estaing, to draw up a plan establishing a European monetary fund, designed to maintain monetary stability in Europe.

Source: Frankfurter Allgemeine Zeitung. Zeitung für Deutschland. Hrsg. Eick, Jürgen; Welter, Erich; Fack, Fritz Ullrich; Deschamps, Bruno; Fest, Joachim; Reißmüller, Johann Georg. 05.07.1978, Nr. 140. Frankfurt/Main: FAZ Verlag GmbH. "Pläne für einen europäischen Währungsfonds", p. 11.

URL:
http://www.cvce.eu/obj/plans_for_a_european_monetary_fund_from_frankfurter_allgemeine_zeitung_5_july_1978-en-e1c31cc3-2760-49f8-a31f-2e9c25972364.html

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Plans for a European Monetary Fund

Schmidt and Giscard as main initiators / Only narrow margin

Rr. Frankfurt, 4 July. Leading European politicians obviously regard the at times strongly fluctuating exchange rates as a great evil and as a considerable hindrance to economic growth. All sorts of projects have therefore been under discussion for some time, both in public and behind the closed doors of Government offices. It seemed at first that the aim was merely to persuade those countries that had left the European currency snake — France, Great Britain and Italy — to rejoin and how to decide to make this easier for them. The Federal Chancellor, Helmut Schmidt, and the French President, Valéry Giscard d'Estaing, however, have been secretly developing much more extensive plans, which are to be discussed at the Summit Meeting of European Heads of State or Government opening in Bremen on Friday.

The objective is apparently to create a kind of European Monetary Fund similar to the International Monetary Fund in Washington. In the same way as the current European snake, the new Monetary Union would have fixed rates for exchanges among the various Member States. However, unlike the current snake, which has an exchange rate fluctuation margin of plus or minus 2.25 %, the new Union's margin would be reduced to plus or minus 1 %. Although this reduction is entirely in line with the doctrine of wishing to create stabler exchange rates, the threshold at which the Central Banks will have to intervene on the foreign exchange markets will nevertheless be considerably lower. This means that interventions to keep currency rates within the narrow fluctuation margin of 1 % will become necessary at a much earlier stage. As things stand, only the German mark would become the principal intervention currency.

The intervention mechanism of the new Union will apparently also be changed and relaxed. In the current snake, the Central Banks have to intervene immediately when the exchange rate of a member currency threatens to breach the lower or upper margin. When, for example, in 1976, there was a sudden rush out of the franc and into the mark and the franc rate subsequently fell to the lower intervention point, not only did the two Central Banks involved have to take immediate action on the foreign exchange markets, the Bundesbank also had to make an unlimited amount of marks available to the Banque de France for its interventions. In accordance with the regulations in force, such support loans will, however, have to be paid back out of currency reserves by the end of the following month. At the time, the Bundesbank would have also had to grant further intervention loans, but Paris feared an even greater haemorrhage, as well as an official devaluation of the franc, and therefore left the snake.

The interventions are currently being handled through the European Monetary Cooperation Fund. A mere clearing house to date, this Fund is to be expanded in future so that it becomes a kind of European Finance Institution to which a part of national currency reserves would be transferred. Currency reserves would therefore have to be taken from the Bundesbank and transferred to this Fund. As in the case of the International Monetary Fund, credit tranches are also to be introduced in the new Union. The Member States would be able to use the first tranche with no strings attached. Any further credit tranches would be subject to increasingly stricter economic policy terms for the borrowing country, for example a reduction in the rate of growth of public expenditure, a reduction in money supply or currency devaluation.